

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Bridgman	County Berrien
Fiscal Year End 6/30/2006	Opinion Date 9/21/2006	Date Audit Report Submitted to State 12/28/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☒ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 517.787.6503		
Street Address 675 Robinson Road		City Jackson	State MI	Zip 49203
Authorizing CPA Signature 		Printed Name Stephen W. Blann, CPA, CGFM		License Number 24801



# **CITY OF BRIDGMAN, MICHIGAN**

## **Comprehensive Annual Financial Report**

**For The Fiscal Year Ended  
June 30, 2006**

**Prepared by:**

**Treasurer's Department**

**CITY OF BRIDGMAN, MICHIGAN**  
**For the Fiscal Year Ended June 30, 2006**

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**CITY OF BRIDGMAN, MICHIGAN**  
**For the Fiscal Year Ended June 30, 2006**

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# **INTRODUCTORY SECTION**



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9765 Maple Street / P.O. Box 366 / Bridgman, MI 49106 / 269•465•5144 / fax 269•465•3701

September 22, 2006

**To the Honorable Mayor, Members of the City Commission and Citizens of the City of Bridgman:**

State law requires that every general-purpose local government publish within six months of the close of each fiscal year a complete set of audited financial statements. This report is published to fulfill that requirement for the fiscal year ended June 30, 2006.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Rehman Robson, a firm of licensed certified public accountants, has issued an unqualified (“clean”) opinion on the City of Bridgman’s financial statements for the year ended June 30, 2006. The independent auditor’s report is located at the front of the financial section of this report.

Management’s discussion and analysis (MD&A) immediately follows the independent auditor’s report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

***Profile of the Government***

The City of Bridgman is located in Berrien County in the Southwestern corner of Michigan. The City is 16 miles north of Indiana and includes over a mile of frontage on Lake Michigan. Land area is approximately 2.9 square miles with a population of 2,428 based on the 2000 census. The City is empowered to levy a property tax on both real and personal property located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which it has done from time to time.

Bridgman was fully incorporated as a home rule city in 1949 with the passage of its charter and employs the commission-manager form of government. Policy-making and legislative authority are vested in a governing Commission consisting of the mayor and six other members, all elected on a non-partisan basis. Commission members serve four-year staggered terms, with three Commission members elected one year and four in two years. The mayor is elected to a four-year term within the commission. The Commission members are elected at-large.

The City of Bridgman provides a full range of services, including police and fire protection; the construction and maintenance of highways, streets and other infrastructure; water treatment and distribution; garbage removal, economic development; recreational and cultural activities.

The Commission is required to adopt a final budget by no later than the close of the fiscal year. This annual budget serves as the foundation for the City of Bridgman's financial planning and control. The budget is prepared by fund, function (e.g., public safety), and department (e.g., police). Department heads may transfer resources within a department as they see fit. Transfers between departments, however, need special approval from the City Commission.

### ***Local economy***

The City of Bridgman has a stable economic base consisting of a mix of industrial/commercial, residential and tourism-based enterprises. Land use in City indicates that the primary mix is 50% residential, 30% industrial/commercial with the remaining 20% in recreational, government and vacant land.

The City's water system has capacity that exceeds the average daily usage. The water plant has a maximum daily capacity of 1.4 million gallons and an average daily consumption of 320,000 gallons. In fiscal 2004, the City recorded a bond issuance that allowed for the expansion of the Galien River Sanitary District. This wastewater system has a maximum daily capacity of 500,000 with an average daily treatment of 295,000 gallons.

Bridgman has shown regular growth since 1960 with a net population change of 67% over the 40 years (based on the 2000 census data). From 1990 to 2000, the City grew 13.5% and was the only city in Berrien County that grew during that decade.

### ***Long-term financial planning***

Manufacturing facilities are encouraged to locate in the City through the approval of Industrial Facilities Tax Abatements and other measures. However, similar to other local units of government around the County, The City of Bridgman is experiencing decreases in state revenue sharing. The General Fund's fiscal 2006 ending fund balance amounts to approximately 96% of the fund's annual expenditures. This percentage of fund balance is expected to be maintained in the future through prudent management of its financial resources.

### ***Cash management policies and practices***

The City is conservative in its approach to cash management. In general, cash is deposited upon receipt into interest-bearing cash-management accounts. Due to the federal limits placed on the number of withdrawals executed on interest-bearing accounts within a given month, there are funds that cannot utilize them. Protecting taxpayers against potential deficits is emphasized in the City's investment strategy.

### ***Risk management***

Under a comprehensive plan of risk management, the City maintains property, liability and workers' compensation insurance coverage through the Michigan Municipal League insurance pool.

### ***Pension benefits***

In fiscal 2006, the City joined Municipal Employees' Retirement System's defined benefits retirement plan. Additional information on the City's retirement system can be found in Note IV.C. in the notes to the financial statements.

### ***Awards and Acknowledgements***

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the CITY OF BRIDGMAN for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2005. This was the fifth consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, the government had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

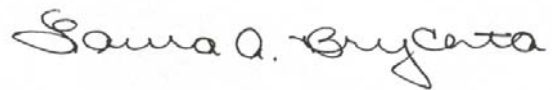
A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated service of the entire staff of the finance and administration department. We wish to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit also must be given to the mayor and the governing commission for their unfailing support for maintaining the highest standards of professionalism in the management of the CITY OF BRIDGMAN'S finances.

Respectfully submitted,



Aaron L. Anthony  
City Superintendent

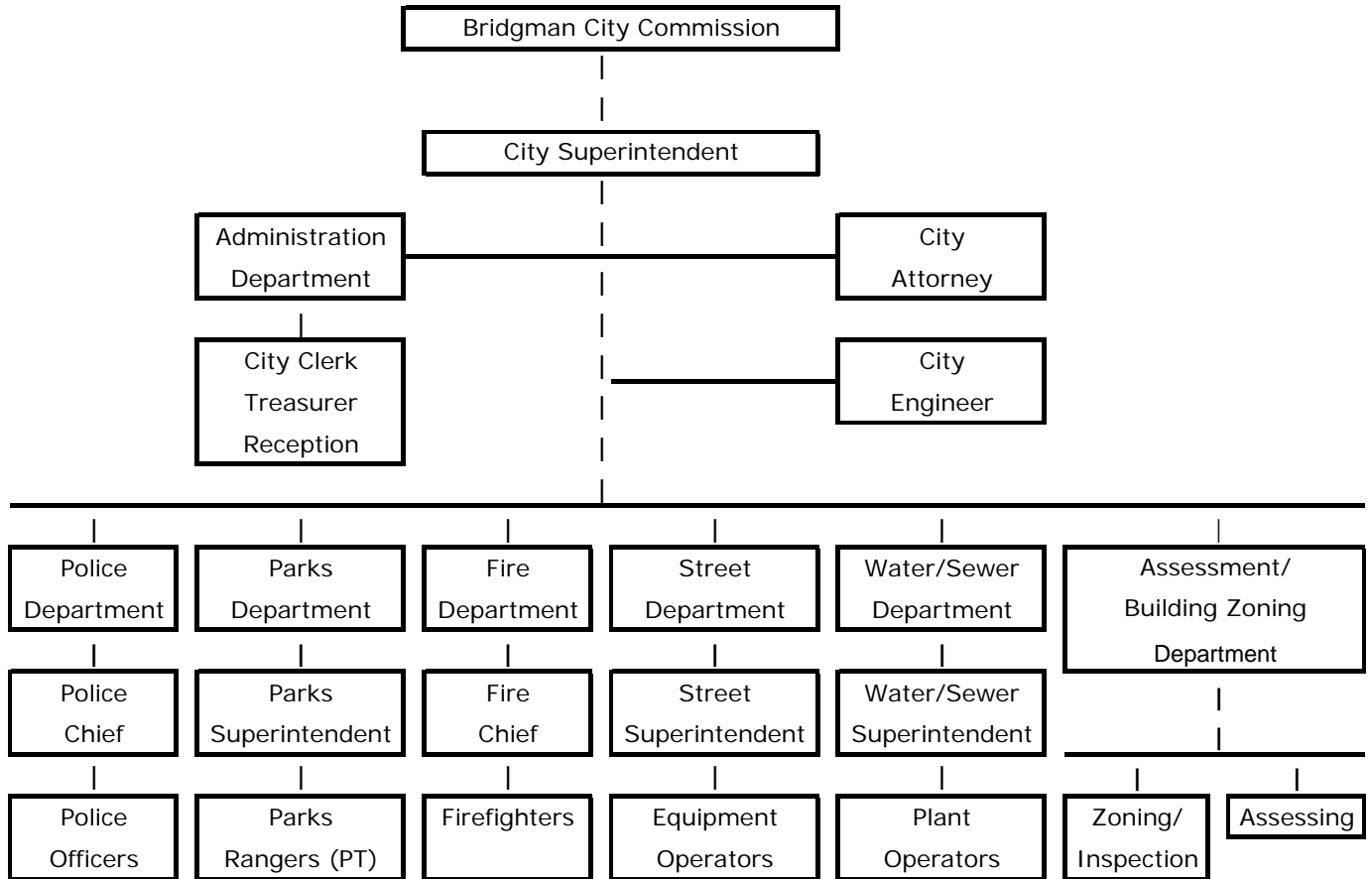


Laura A. Brychta  
Treasurer



# CITY OF BRIDGMAN, MICHIGAN

## Organizational Chart



## **CITY OF BRIDGMAN, MICHIGAN**

### **List of Elected and Appointed Officials For the Fiscal Year Ended June 30, 2006**

#### **Elected Officials**

Mayor  
Mayor Pro Tem  
Council Member  
Council Member  
Council Member  
Council Member  
Council Member

Ron Birmingham  
William H. Boyd  
Kathy Ramso  
Jim A. Catania  
Dorothea Crocker  
Linda Gedeon-Kuhn  
Robert Liskey

#### **Appointed Officials**

City Superintendent  
Assessor  
Clerk  
Utility Services & Parks Superintendent  
Public Works Superintendent  
Police Chief  
Fire Chief  
Treasurer  
Building Inspector

Aaron L. Anthony  
Nancy Williams  
Pamela Hahaj  
Tim M. Kading  
Richard H. Knuth  
Ted Post  
Richard H. Knuth  
Laura A. Brychta  
William H. Boyd, Jr.

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Bridgman  
Michigan

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, appearing to read "Thomas J. Flannery".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

# **FINANCIAL SECTION**



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP



## **Independent Auditors' Report**

September 21, 2006

The Honorable Mayor and  
Members of the City Council  
City of Bridgman  
Bridgman, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **City of Bridgman, Michigan**, as of and for the year ended June 30, 2006, which collectively comprise the basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the remaining aggregate fund information of the City of Bridgman, Michigan, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparisons for the general fund and each major special revenue fund, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole. The introductory and statistical sections of this report have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

## MANAGEMENT'S DISCUSSION and ANALYSIS

## Management's Discussion and Analysis

As management of the *City of Bridgman, Michigan*, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-iii of this report.

### Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$11,199,535 (net assets), a decrease of \$16,933 over the prior year. Of this amount, \$1,589,871 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,960,894, an increase of \$307,268 over fiscal 2005. Approximately 99.6% of this total amount, or \$1,952,153 is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, the City's proprietary funds reported combined total net assets of \$3,160,537, a decrease of \$154,493 over fiscal 2005. Unrestricted net assets total represented a deficit of \$(330,903), with \$3,491,440 invested in capital assets, net of related debt.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.



The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, and highways and streets. The business-type activities of the City include water and sewer operations as well as parks and recreation.

The government-wide financial statements include not only the City itself (known as the primary government), but also two component units. The Brownfield Development Authority is a legally separate authority for which the City is financially accountable. The Authority had no assets as of June 30, 2006 and no activities for the year then ended. The City of Bridgman Building Authority, although also legally separate, functions for all practical purposes as a department of the City, and therefore has been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 13-15 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Following the governmental funds balance sheet and the governmental funds statement of revenue, expenditures, and changes in fund balances, reconciliations are provided to facilitate this comparison between governmental funds and governmental activities.

The City maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balances for the general and building authority debt service funds. Non-major governmental funds, which include the major streets, local streets, public improvements, and economic development special revenue funds and the general debt service fund, are reported in a combined format on these statements.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 16-21 of this report.

***Proprietary funds.*** The City maintains two types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its sanitary sewer and water distribution operations, as well as parks and recreation. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its vehicle and equipment maintenance activities. Because this service predominantly benefits governmental rather than business-type functions, the assets and liabilities of the internal service fund have been included within governmental activities in the government-wide statement of net assets.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer and water operations, as well as parks and recreation, all of which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 22-27 of this report.

***Fiduciary funds.*** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The City only accounts for one type of fiduciary fund, which is an *agency* fund. This fund is used to account for tax collections by the City of Bridgman on behalf of other governments. Agency funds are unlike other types of funds and report only assets and liabilities. Therefore, they do not have a measurement focus, but do, however, use the accrual basis of accounting to recognize receivables and payables.

The City's Agency Fund had no assets or liabilities at year end, and accordingly, no fiduciary financial statements are presented in the basic financial statements.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28-47 of this report.

## Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Bridgman, assets exceeded liabilities by \$11,199,535 at the close of fiscal 2006, a decrease of \$16,933 over fiscal 2005.

### City of Bridgman's Net Assets

	Governmental Activities		Business-type Activities		Total	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 2,503,958	\$ 2,181,926	\$ 3,169,226	\$ 3,259,032	\$ 5,673,184	\$ 5,440,958
Capital assets, net	6,156,380	6,551,816	3,706,440	3,862,524	9,862,820	10,414,340
Total assets	8,660,338	8,733,742	6,875,666	7,121,556	15,536,004	15,855,298
Long-term liabilities outstanding	587,664	832,801	3,557,228	3,655,710	4,144,892	4,488,511
Other liabilities	95,108	59,592	96,469	90,727	191,577	150,319
Total liabilities	682,772	892,393	3,653,697	3,746,437	4,336,469	4,638,830
Net assets:						
Invested in capital assets, net of related debt	5,597,324	5,742,587	3,491,440	3,547,524	9,088,764	9,290,111
Restricted	520,900	434,601	-	-	520,900	434,601
Unrestricted	1,859,342	1,664,161	(269,471)	(172,405)	1,589,871	1,491,756
<b>Total net assets</b>	<b>\$ 7,977,566</b>	<b>\$ 7,841,349</b>	<b>\$ 3,221,969</b>	<b>\$ 3,375,119</b>	<b>\$ 11,199,535</b>	<b>\$ 11,216,468</b>

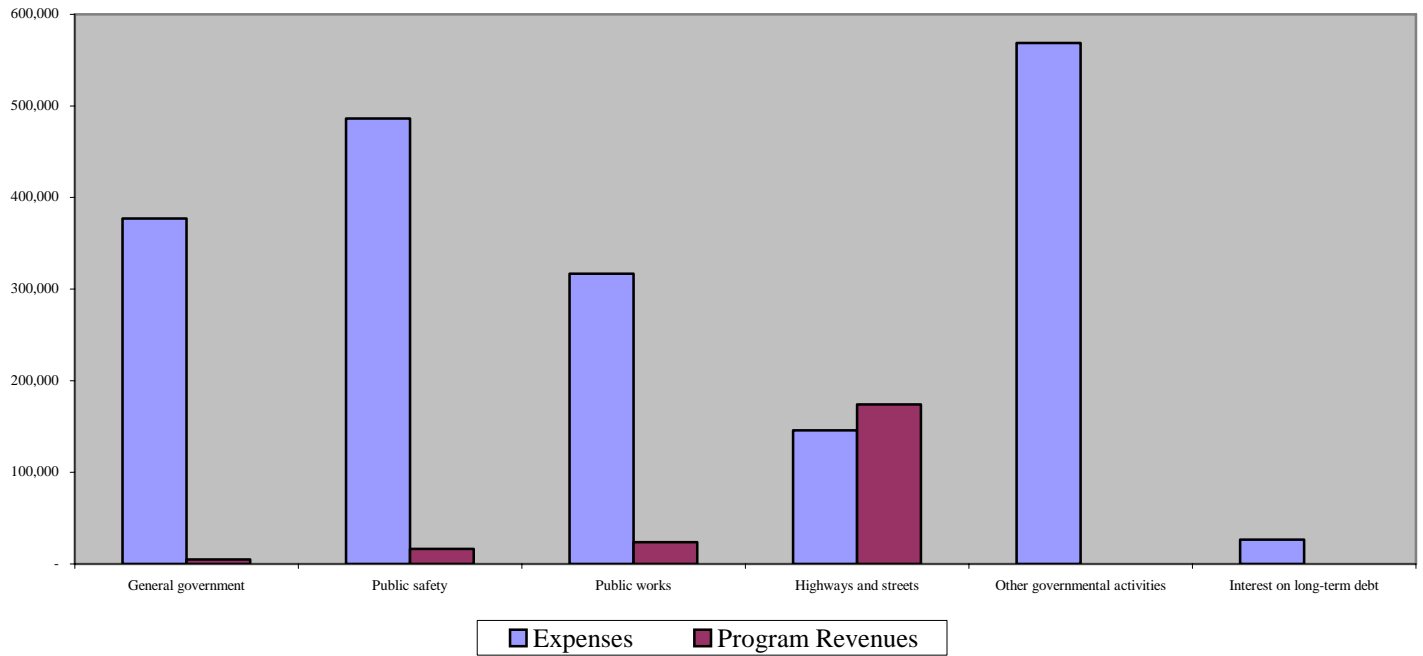
By far the largest portion of the City's net assets (81 percent) reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets, or approximately five percent, represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (14 percent or \$1,589,871) may be used to meet the government's ongoing obligations to citizens and creditors.

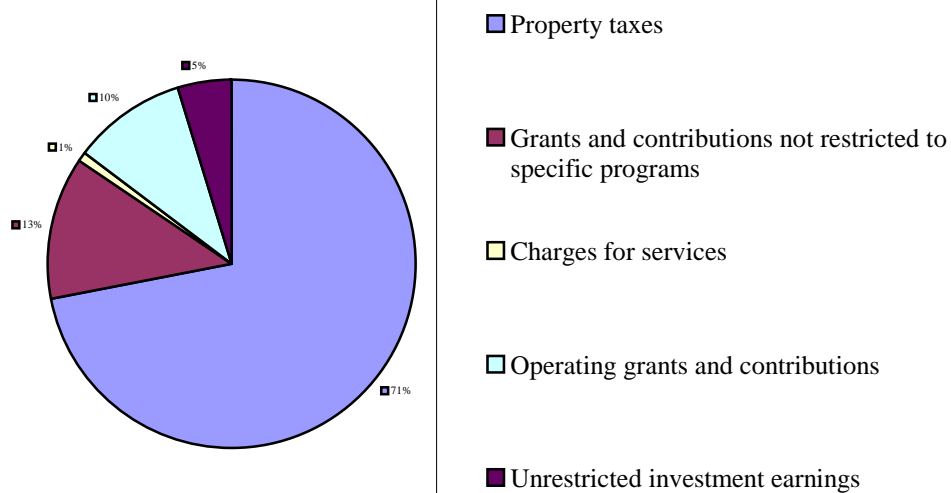
## City of Bridgman's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue:						
Program revenue:						
Charges for services	\$ 16,948	\$ 149,160	\$ 1,068,727	\$ 965,106	\$ 1,085,675	\$ 1,114,266
Operating grants and contributions	181,721	184,052	-	-	181,721	184,052
Capital grants and contributions	20,232	-	-	14,568	20,232	14,568
General revenue:						
Property taxes	1,481,646	1,414,401	-	-	1,481,646	1,414,401
Grants and contributions not restricted to specific programs	258,436	264,868	2,954	3,958	261,390	268,826
Other	98,492	60,205	10,068	3,620	108,560	63,825
Total revenue	2,057,475	2,072,686	1,081,749	987,252	3,139,224	3,059,938
Expenses:						
General government	377,141	420,647	-	-	377,141	420,647
Public safety	486,417	411,019	-	-	486,417	411,019
Public works	316,746	555,602	-	-	316,746	555,602
Highways and streets	145,868	154,813	-	-	145,868	154,813
Other governmental activities	568,737	665,505	-	-	568,737	665,505
Interest on long-term debt	26,349	27,289	-	-	26,349	27,289
Parks	-	-	260,185	255,393	260,185	255,393
Sewer	-	-	607,269	595,219	607,269	595,219
Water	-	-	367,445	393,287	367,445	393,287
Total expenses	1,921,258	2,234,875	1,234,899	1,243,899	3,156,157	3,478,774
Increase in net assets before transfers	136,217	(162,189)	(153,150)	(256,647)	(16,933)	(418,836)
Transfers	-	-	-	-	-	-
Increase in net assets	136,217	(162,189)	(153,150)	(256,647)	(16,933)	(418,836)
Net assets, beginning of year	7,841,349	8,003,538	3,375,119	3,631,766	11,216,468	11,635,304
<b>Net assets, end of year</b>	<b>\$ 7,977,566</b>	<b>\$ 7,841,349</b>	<b>\$ 3,221,969</b>	<b>\$ 3,375,119</b>	<b>\$ 11,199,535</b>	<b>\$ 11,216,468</b>

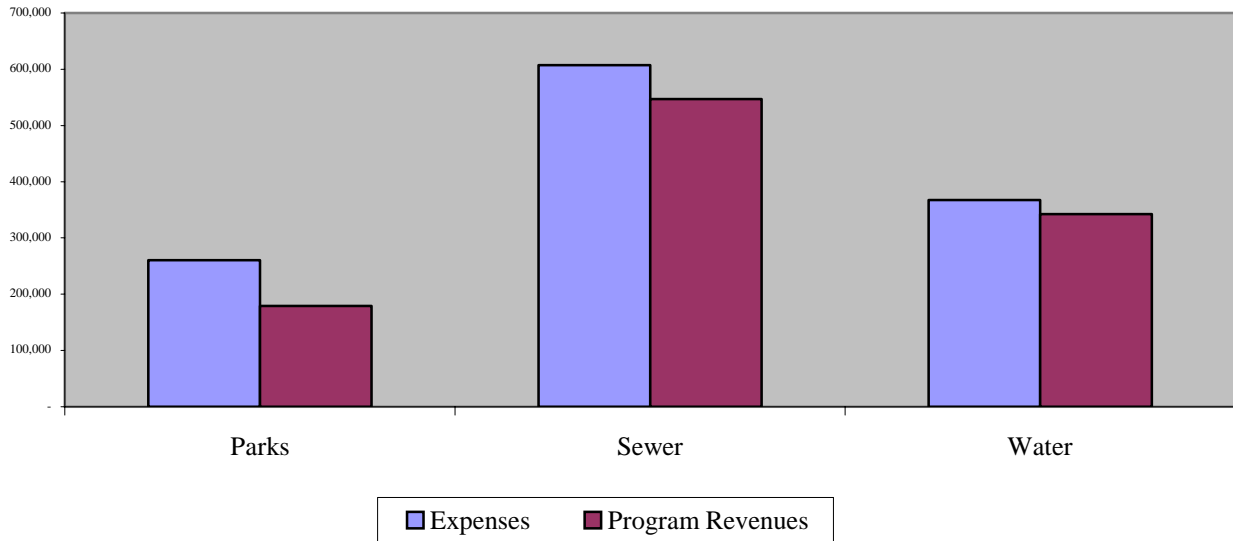
## Expenses and Program Revenues - Governmental Activities



## Revenue by Source – Governmental Activities



### Revenue and Expenses – Business-type Activities



### Financial Analysis of the Government's Funds

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As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

*Governmental funds.* The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,960,894, an increase of \$307,288 in comparison with the prior year. Approximately 99.6 percent of this total amount, or \$1,952,153, constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance, \$8,741, is reserved to indicate that it is not available for new spending because it has already been committed to pay for other restricted purposes.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,427,977, while total fund balance was \$1,435,529. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 87% of total general fund expenditures and transfers out.

The fund balance of the City's general fund increased by \$196,663 during the current fiscal year. This increase is due in large part to transfers out that amounted to \$305,000 in fiscal 2005 and only \$155,000 this fiscal year, a difference of \$150,000. Transfers notwithstanding, revenue exceeded expenditures in fiscal 2006 by \$351,663, a decrease of \$28,565 over fiscal 2005.

The building authority debt service fund has a year-end fund balance of \$124,837. Transfers notwithstanding, this fund experienced an increase in year-end fund balance of \$2,657. The non-major governmental funds, which include major streets, local streets, economic development, public improvement and general debt service funds, have a year-end fund balance of \$400,528. Transfers notwithstanding, this group of funds experienced a decrease in their year-end fund balance totaling \$47,052.

*Proprietary funds.* Unrestricted net assets of the parks, sewer and water enterprise funds at the end of the year amounted to \$38,788, (\$727,746) and \$358,055, respectively.

### **Capital Asset and Debt Administration**

**Capital assets.** The City's investment in capital assets for its government and business-type activities as of June 30, 2006, amounted to \$9,862,820 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment, park facilities, roads and highways. The City's outlay in capital assets for the current fiscal year amounted to \$48,246.

Capital asset events during the current fiscal year included the following:

- The purchase of a leaf loader by our street department for \$21,360
- Rebuilding of the street department's street sweeper for \$10,526
- The addition of roll-down doors to the Toth Street pavilion for \$7,450

**City of Bridgman's Capital Assets**  
(net of depreciation)

	<u>Governmental Activities</u>		<u>Business Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land	\$ 134,600	\$ 134,600	\$ 59,293	\$ 59,293	\$ 193,893	\$ 193,893
Buildings and systems	743,886	781,399	3,646,241	3,800,481	4,390,127	4,581,880
Vehicles and equipment	1,117,203	1,221,592	906	2,750	1,118,109	1,224,342
Infrastructure	4,160,691	4,414,225	-	-	4,160,691	4,414,225
<b>Total</b>	<b><u>\$ 6,156,380</u></b>	<b><u>\$ 6,551,816</u></b>	<b><u>\$ 3,706,440</u></b>	<b><u>\$ 3,862,524</u></b>	<b><u>\$ 9,862,820</u></b>	<b><u>\$ 10,414,340</u></b>

Additional information on the City's capital assets can be found in note III.C. on pages 38-39 of this report.

**Long-term debt.** At the end of the current fiscal year, the City had total installment debt outstanding of \$4,099,046. Of this amount, \$3,499,990 comprises debt backed by the full faith and credit of the government. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds), and installment purchase contracts.

**City of Bridgman's Outstanding Debt**

	<u>Governmental Activities</u>		<u>Business Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
General obligation bonds	\$ 175,000	\$ 335,000	\$3,324,990	\$3,324,990	\$3,499,990	\$3,659,990
Special assessment bonds	-	-	-	-	-	-
Revenue bonds	-	-	215,000	315,000	215,000	315,000
Installment purchase contracts	384,056	474,229	-	-	384,056	474,229
<b>Total</b>	<b><u>\$ 559,056</u></b>	<b><u>\$ 809,229</u></b>	<b><u>\$3,539,990</u></b>	<b><u>\$3,639,990</u></b>	<b><u>\$4,099,046</u></b>	<b><u>\$4,449,219</u></b>

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total taxable value. The current debt limitation for the City is \$9,883,298, which is significantly in excess of the City's outstanding general obligation debt of \$3,499,990.



Additional information on the City's long-term debt can be found in note III.F on pages 40-43 of this report.

### **Economic Factors and Next Year's Budgets and Rates**

The following factors were considered in preparing the City's budget for the 2006-07 fiscal year:

- Projections of commercial, industrial, tourism and residential growth potential;
- Economic indicators for the region and local development projects currently proposed and/or underway;
- Growth and development trends as a result of the 2000 Census;
- Projected staff and capital improvements projects by the City;
- Available taxing, bonding and grant resources.

### **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Treasurer, 9765 Maple Street, P.O. Box 366, Bridgman, MI 49106.

## BASIC FINANCIAL STATEMENTS

# GOVERNMENT-WIDE FINANCIAL STATEMENTS

# CITY OF BRIDGMAN, MICHIGAN

## Statement of Net Assets

June 30, 2006

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 2,295,810	\$ 360,006	\$ 2,655,816
Receivables	158,967	164,234	323,201
Internal balances	39,755	(39,755)	-
Prepaid items and other assets	9,426	150,701	160,127
Investment in Galien River Sanitary District	-	2,534,040	2,534,040
Capital assets not being depreciated	134,600	59,293	193,893
Capital assets being depreciated, net	<u>6,021,780</u>	<u>3,647,147</u>	<u>9,668,927</u>
<b>Total assets</b>	<u>8,660,338</u>	<u>6,875,666</u>	<u>15,536,004</u>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	91,693	96,469	188,162
Unearned revenue	3,415	-	3,415
Long-term debt:			
Due within one year	272,517	205,583	478,100
Due in more than one year	<u>315,147</u>	<u>3,351,645</u>	<u>3,666,792</u>
<b>Total liabilities</b>	<u>682,772</u>	<u>3,653,697</u>	<u>4,336,469</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	5,597,324	3,491,440	9,088,764
Restricted for:			
Debt service	303,873	-	303,873
Major and local streets	217,027	-	217,027
Unrestricted (deficit)	<u>1,859,342</u>	<u>(269,471)</u>	<u>1,589,871</u>
<b>Total net assets</b>	<u><u>\$ 7,977,566</u></u>	<u><u>\$ 3,221,969</u></u>	<u><u>\$ 11,199,535</u></u>

The accompanying notes are an integral part of these financial statements.

# CITY OF BRIDGMAN, MICHIGAN

## Statement of Activities

For the Year Ended June 30, 2006

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental activities:					
General government	\$ 377,141	\$ 4,911	\$ -	\$ -	\$ (372,230)
Public safety	486,417	12,037	4,296	-	(470,084)
Public works	316,746	-	3,425	20,232	(293,089)
Highways and streets	145,868	-	174,000	-	28,132
Other governmental activities	568,737	-	-	-	(568,737)
Interest on long-term debt	26,349	-	-	-	(26,349)
Total governmental activities	<u>1,921,258</u>	<u>16,948</u>	<u>181,721</u>	<u>20,232</u>	<u>(1,702,357)</u>
Business-type activities:					
Parks	260,185	179,065	-	-	(81,120)
Sewer	607,269	547,268	-	-	(60,001)
Water	367,445	342,394	-	-	(25,051)
Total business-type activities	<u>1,234,899</u>	<u>1,068,727</u>	<u>-</u>	<u>-</u>	<u>(166,172)</u>
Total	<u>\$ 3,156,157</u>	<u>\$ 1,085,675</u>	<u>\$ 181,721</u>	<u>\$ 20,232</u>	<u>\$ (1,868,529)</u>

continued...

# CITY OF BRIDGMAN, MICHIGAN

## Statement of Activities (Concluded)

For the Year Ended June 30, 2006

	<b><u>Governmental Activities</u></b>	<b><u>Business-type Activities</u></b>	<b><u>Total</u></b>
<b>Changes in net assets</b>			
Net expense	<u>\$ (1,702,357)</u>	<u>\$ (166,172)</u>	<u>\$ (1,868,529)</u>
General revenues:			
Property taxes	1,481,646	-	1,481,646
Grants and contributions not restricted to specific programs	258,436	2,954	261,390
Unrestricted investment earnings	<u>98,492</u>	<u>10,068</u>	<u>108,560</u>
Total general revenues	<u>1,838,574</u>	<u>13,022</u>	<u>1,851,596</u>
Change in net assets	136,217	(153,150)	(16,933)
Net assets, beginning of year	<u>7,841,349</u>	<u>3,375,119</u>	<u>11,216,468</u>
<b>Net assets, end of year</b>	<u><u>\$ 7,977,566</u></u>	<u><u>\$ 3,221,969</u></u>	<u><u>\$ 11,199,535</u></u>

The accompanying notes are an integral part of these financial statements.

## FUND FINANCIAL STATEMENTS

# CITY OF BRIDGMAN, MICHIGAN

## Balance Sheet Governmental Funds June 30, 2006

	General	Building Authority Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
<b><u>ASSETS</u></b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 1,319,716	\$ 124,837	\$ 393,769	\$ 1,838,322
Special assessments receivable	3,263	-	56,198	59,461
Due from other governments	71,030	-	28,476	99,506
Due from other funds	101,187	-	-	101,187
Prepaid items	7,552	-	1,189	8,741
<b><u>TOTAL ASSETS</u></b>	<b><u>\$ 1,502,748</u></b>	<b><u>\$ 124,837</u></b>	<b><u>\$ 479,632</u></b>	<b><u>\$ 2,107,217</u></b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>				
<b>Liabilities</b>				
Accounts payable	\$ 26,854	\$ -	\$ 21,479	\$ 48,333
Accrued liabilities	33,687	-	1,427	35,114
Deferred revenue	6,678	-	56,198	62,876
Total liabilities	67,219	-	79,104	146,323
<b>Fund balances:</b>				
Reserved for prepaid items	7,552	-	1,189	8,741
Unreserved:				
Undesignated	1,427,977	124,837	-	1,552,814
Undesignated, reported in nonmajor:				
Special revenue funds	-	-	279,764	279,764
Debt service funds	-	-	119,575	119,575
Total fund balances	1,435,529	124,837	400,528	1,960,894
<b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	<b><u>\$ 1,502,748</u></b>	<b><u>\$ 124,837</u></b>	<b><u>\$ 479,632</u></b>	<b><u>\$ 2,107,217</u></b>

The accompanying notes are an integral part of these financial statements.



**CITY OF BRIDGMAN, MICHIGAN**  
**Reconciliation of Fund Balances on the Balance Sheet**  
**for Governmental Funds to Net Assets of**  
**Governmental Activities on the Statement of Net Assets**  
**June 30, 2006**

Fund balances - total governmental funds	\$ 1,960,894
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets not being depreciated	134,600
Add: capital assets being depreciated	14,324,927
Deduct: accumulated depreciation	(9,405,263)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred special assessments	59,461
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An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in the internal service fund	1,107,939
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: bonds payable	(175,000)
Deduct: accrued interest on bonds payable	(1,384)
Deduct: compensated absences	(28,608)

Net assets of governmental activities	<u><u>\$ 7,977,566</u></u>
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The accompanying notes are an integral part of these financial statements.

**CITY OF BRIDGMAN, MICHIGAN**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2006**

	General	Building Authority Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Property taxes	\$ 1,481,646	\$ -	\$ -	\$ 1,481,646
Special assessments	9,078	-	32,126	41,204
Intergovernmental	233,435	-	174,000	407,435
Charges for services	5,478	-	-	5,478
Investment earnings	74,879	-	23,613	98,492
Licenses and permits	29,297	-	-	29,297
Fines and forfeitures	11,470	-	-	11,470
Rent	-	175,000	-	175,000
Other	-	-	3,425	3,425
Total revenues	1,845,283	175,000	233,164	2,253,447
<b>Expenditures</b>				
Current:				
General government	334,057	-	-	334,057
Public safety	485,433	-	-	485,433
Public works	202,575	-	-	202,575
Highways and streets	-	-	145,868	145,868
Other	471,555	-	134,348	605,903
Debt service:				
Principal	-	160,000	-	160,000
Interest and fiscal charges	-	12,343	-	12,343
Total expenditures	1,493,620	172,343	280,216	1,946,179
Revenues over (under) expenditures	351,663	2,657	(47,052)	307,268
<b>Other financing sources (uses)</b>				
Transfers in	-	-	155,000	155,000
Transfers out	(155,000)	-	-	(155,000)
Total other financing sources (uses)	(155,000)	-	155,000	-
Net change in fund balances	196,663	2,657	107,948	307,268
Fund balances, beginning of year	1,238,866	122,180	292,580	1,653,626
<b>Fund balances, end of year</b>	<b>\$ 1,435,529</b>	<b>\$ 124,837</b>	<b>\$ 400,528</b>	<b>\$ 1,960,894</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF BRIDGMAN, MICHIGAN**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Change in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended June 30, 2006**

Net change in fund balances - total governmental funds	\$ 307,268
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Deduct: depreciation expense	(294,062)
Governmental funds record revenue from special assessments as they are collected. However, in the statement of activities, special assessments are recognized as revenue in the year levied.	
Deduct: current year collections on deferred special assessments	(20,972)
Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	
Add: principal payments on long-term liabilities	160,000
An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The net revenue (expense) attributable to those funds is reported with governmental activities.	
Deduct: interest expense from governmental internal service fund	(14,627)
Add: net operating loss from governmental activities in the internal service fund	7,498
Deduct: loss on disposal of capital assets	(4,473)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Add: decrease in accrued interest payable on bonds	621
Deduct: increase in the accrual for compensated absences	(5,036)
Change in net assets of governmental activities	<u>\$ 136,217</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF BRIDGMAN, MICHIGAN**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2006**

	Budgeted Amounts			Actual
	Original	Final	Actual	Over (Under) Final Budget
Revenues				
Property taxes	\$ 1,436,000	\$ 1,436,000	\$ 1,481,646	\$ 45,646
Special assessments	-	-	9,078	9,078
Intergovernmental	220,500	220,500	233,435	12,935
Charges for services	4,000	4,000	5,478	1,478
Investment earnings	25,000	25,000	74,879	49,879
Licenses and permits	36,500	36,500	29,297	(7,203)
Fines and forfeitures	7,800	7,800	11,470	3,670
Other	1,000	1,000	-	(1,000)
Total revenues	1,730,800	1,730,800	1,845,283	114,483
Expenditures				
General government:				
City Commission	33,900	33,900	28,604	(5,296)
Superintendent	96,700	96,700	96,917	217
Elections	4,400	4,400	4,475	75
Assessor	23,800	23,800	25,535	1,735
General office	105,500	105,500	116,164	10,664
Building and grounds	57,500	57,500	46,239	(11,261)
Planning commission	18,700	18,700	3,805	(14,895)
Zoning administrator	14,800	14,800	12,318	(2,482)
Total general government	355,300	355,300	334,057	(21,243)
Public safety:				
Police	299,400	299,400	286,177	(13,223)
Fire	151,700	151,700	175,545	23,845
Building inspector	19,600	19,600	23,711	4,111
Total public safety	470,700	470,700	485,433	14,733
Public works	206,300	206,300	202,575	(3,725)
Other - general administration	481,500	481,500	471,555	(9,945)
Total expenditures	1,513,800	1,513,800	1,493,620	(20,180)
Revenues over expenditures	217,000	217,000	351,663	134,663

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**CITY OF BRIDGMAN, MICHIGAN**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual (Concluded)**  
**General Fund**  
**For the Year Ended June 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Other financing sources (uses)</b>				
Transfers out	<u>\$ (350,000)</u>	<u>\$ (350,000)</u>	<u>\$ (155,000)</u>	<u>\$ (195,000)</u>
Net change in fund balance	(133,000)	(133,000)	196,663	329,663
Fund balance, beginning of year	<u>1,238,866</u>	<u>1,238,866</u>	<u>1,238,866</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u>\$ 1,105,866</u></u>	<u><u>\$ 1,105,866</u></u>	<u><u>\$ 1,435,529</u></u>	<u><u>\$ 329,663</u></u>

The accompanying notes are an integral part of these financial statements.

# CITY OF BRIDGMAN, MICHIGAN

## Statement of Net Assets

### Proprietary Funds

June 30, 2006

	<b>Business-type Activities - Enterprise Funds</b>				<b>Governmental Activities</b>
	<b>Parks</b>	<b>Sewer</b>	<b>Water</b>	<b>Total</b>	<b>Vehicle and Equipment Internal Service Fund</b>
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 73,361	\$ -	\$ 286,645	\$ 360,006	\$ 457,488
Accounts receivable - customers	-	99,295	53,285	152,580	-
Special assessments receivable	-	-	11,654	11,654	-
Inventories	-	-	8,281	8,281	-
Prepaid items	733	870	3,162	4,765	685
Total current assets	74,094	100,165	363,027	537,286	458,173
Noncurrent assets:					
Capital assets not being depreciated	19,610	18,430	21,253	59,293	-
Capital assets being depreciated, net	662,096	1,120,021	1,865,030	3,647,147	1,102,116
Investment in Galien River Sanitary District	-	2,534,040	-	2,534,040	-
Other assets - unamortized discount	-	120,013	17,642	137,655	-
Total noncurrent assets	681,706	3,792,504	1,903,925	6,378,135	1,102,116
Total assets	755,800	3,892,669	2,266,952	6,915,421	1,560,289
<b>Liabilities</b>					
Current liabilities:					
Accounts payable	19,166	29,249	2,637	51,052	5,341
Accrued liabilities	7,851	24,198	8,638	40,687	1,521
Due to other funds	-	101,187	-	101,187	-
Deposits payable	50	2,340	2,340	4,730	-
Compensated absences, current portion	1,447	-	4,606	6,053	-
Bonds and notes payable, current portion	-	94,530	105,000	199,530	80,522
Total current liabilities	28,514	251,504	123,221	403,239	87,384
Noncurrent liabilities:					
Compensated absences, net of current portion	6,792	-	4,393	11,185	-
Bonds and notes payable, net of current portion	-	3,230,460	110,000	3,340,460	303,534
Total noncurrent liabilities	6,792	3,230,460	114,393	3,351,645	303,534
Total liabilities	35,306	3,481,964	237,614	3,754,884	390,918
<b>Net Assets</b>					
Invested in capital assets, net of related debt	681,706	1,138,451	1,671,283	3,491,440	718,060
Unrestricted (deficit)	38,788	(727,746)	358,055	(330,903)	451,311
Total net assets	\$ 720,494	\$ 410,705	\$ 2,029,338	\$ 3,160,537	\$ 1,169,371

The accompanying notes are an integral part of these financial statements.

**CITY OF BRIDGMAN, MICHIGAN**  
**Reconciliation of Net Assets on the Statement of**  
**Net Assets for Enterprise Funds to Net Assets of**  
**Business-type Activities on the Statement of Net Assets**  
**June 30, 2006**

Net assets - enterprise funds	\$ 3,160,537
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Amounts reported for business-type activities in the statement of net assets are different because:

An internal service fund is used by management to charge the costs of certain equipment usage to individual enterprise funds. The portion of the net assets of the internal service fund attributable to these charges are included in business-type activities in the statement of net assets.

Add: net assets of business-type activities accounted for in the internal service fund	<u>61,432</u>
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Net assets of business-type activities	<u><u>\$ 3,221,969</u></u>
--	----------------------------

The accompanying notes are an integral part of these financial statements.

**CITY OF BRIDGMAN, MICHIGAN**

**Statement of Revenues, Expenses  
and Changes in Fund Net Assets  
Proprietary Funds**

**For the Year Ended June 30, 2006**

	<b>Business-type Activities - Enterprise Funds</b>				<b>Governmental Activities Vehicle and Equipment Internal Service Fund</b>
	<b>Parks</b>	<b>Sewer</b>	<b>Water</b>	<b>Total</b>	
<b>Operating revenues</b>					
Charges for services	\$ 179,065	\$ 547,268	\$ 294,394	\$ 1,020,727	\$ 283,000
Rent	-	-	48,000	48,000	-
Other	2,954	-	-	2,954	-
Total operating revenues	182,019	547,268	342,394	1,071,681	283,000
<b>Operating expenses</b>					
Operations	203,949	423,384	268,268	895,601	146,004
Depreciation	56,955	43,150	72,339	172,444	128,155
Total operating expenses	260,904	466,534	340,607	1,068,045	274,159
Operating income (loss)	(78,885)	80,734	1,787	3,636	8,841
<b>Non-operating revenues (expenses)</b>					
Investment income	2	1,737	8,329	10,068	-
Loss on disposal of capital assets	-	-	-	-	(4,473)
Interest expense	-	(140,735)	(27,462)	(168,197)	(14,627)
Total non-operating revenues (expenses)	2	(138,998)	(19,133)	(158,129)	(19,100)
Change in net assets	(78,883)	(58,264)	(17,346)	(154,493)	(10,259)
Net assets, beginning of year	799,377	468,969	2,046,684	3,315,030	1,179,630
<b>Net assets, end of year</b>	<b>\$ 720,494</b>	<b>\$ 410,705</b>	<b>\$ 2,029,338</b>	<b>\$ 3,160,537</b>	<b>\$ 1,169,371</b>

The accompanying notes are an integral part of these financial statements.



**CITY OF BRIDGMAN, MICHIGAN**  
**Reconciliation of the Statement of Revenues, Expenses**  
**and Changes in Fund Net Assets of Proprietary Funds**  
**to the Statement of Activities**  
**For the Year Ended June 30, 2006**

Net change in net assets - total enterprise funds	\$ (154,493)
---	--------------

Amounts reported for *business-type activities* in the statement of activities are different because:

An internal service fund is used by management to charge the costs of certain equipment usage to individual enterprise funds. The net revenue (expense) attributable to those funds is reported with business-type activities.

Add: net operating loss from business-type activities in the internal service fund	<u>1,343</u>
--	--------------

Change in net assets of business-type activities	<u><u>\$ (153,150)</u></u>
--	----------------------------

The accompanying notes are an integral part of these financial statements.

**CITY OF BRIDGMAN, MICHIGAN**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2006**

	<b>Business-type Activities - Enterprise Funds</b>				<b>Governmental Activities Vehicle and Equipment Internal Service Fund</b>
	<b>Parks</b>	<b>Sewer</b>	<b>Water</b>	<b>Total</b>	
<b>Cash flows from operating activities</b>					
Cash received from customers and others	\$ 182,044	\$ 528,733	\$ 340,937	\$ 1,051,714	\$ -
Cash received from interfund services	-	-	-	-	283,000
Cash payments to employees	(74,167)	(45,719)	(33,882)	(153,768)	(36,174)
Cash payments to suppliers for goods and services	(161,267)	(385,641)	-	(546,908)	387,331
Cash payments for interfund services	(23,000)	-	(20,000)	(43,000)	-
Net cash provided (used) by operating activities	(76,390)	97,373	287,055	308,038	634,157
<b>Cash flows from investing activities</b>					
Investment income	2	1,737	8,329	10,068	-
<b>Cash flows from capital and related financing activities</b>					
Purchase of capital assets	(13,385)	-	(2,975)	(16,360)	(31,886)
Proceeds from sale of capital assets	-	-	-	-	632
Bond/note principal payments	-	-	(100,000)	(100,000)	(90,173)
Bond/note interest payments	-	(135,517)	(16,468)	(151,985)	(14,627)
Net cash provided (used) by capital and related financing activities	(13,385)	(135,517)	(119,443)	(268,345)	(136,054)
Net increase (decrease) in cash and cash equivalents	(89,773)	(36,407)	175,941	49,761	498,103
Cash and cash equivalents, beginning of year	163,134	36,407	110,704	310,245	(40,615)
<b>Cash and cash equivalents, end of year</b>	<b>\$ 73,361</b>	<b>\$ -</b>	<b>\$ 286,645</b>	<b>\$ 360,006</b>	<b>\$ 457,488</b>

Continued...

**CITY OF BRIDGMAN, MICHIGAN**  
**Statement of Cash Flows (Concluded)**  
**Proprietary Funds**  
**For the Year Ended June 30, 2006**

	<b>Business-type Activities - Enterprise Funds</b>				<b>Governmental Activities Vehicle and Equipment Internal Service Fund</b>
	<b>Parks</b>	<b>Sewer</b>	<b>Water</b>	<b>Total</b>	
<b>Reconciliation of operating income (loss) to net cash provided by operating activities</b>					
Operating income (loss)	\$ (78,885)	\$ 80,734	\$ 1,787	\$ 3,636	\$ 8,841
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	56,955	43,150	72,339	172,444	128,155
Changes in assets and liabilities:					
Accounts receivable - customers	-	(18,795)	(3,174)	(21,969)	-
Special assessments receivable	-	-	1,457	1,457	-
Due from other funds	567,245	259,666	470,828	1,297,739	1,381,963
Inventories	-	-	1,830	1,830	-
Prepaid items	(733)	(870)	(3,162)	(4,765)	(685)
Investment in Galien River Sanitary District	-	(20,771)	-	(20,771)	-
Accounts payable	8,324	909	(2,670)	6,563	1,604
Accrued liabilities	72	(956)	(482)	(1,366)	111
Due to other funds	(630,461)	(245,954)	(252,408)	(1,128,823)	(885,832)
Deposits payable	25	260	260	545	-
Accrued compensated absences	1,068	-	450	1,518	-
<b>Net cash provided (used) by operating activities</b>	<b>\$ (76,390)</b>	<b>\$ 97,373</b>	<b>\$ 287,055</b>	<b>\$ 308,038</b>	<b>\$ 634,157</b>

The accompanying notes are an integral part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

# CITY OF BRIDGMAN, MICHIGAN

## Index

### Notes to the Financial Statements

For the Year Ended June 30, 2006

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# CITY OF BRIDGMAN, MICHIGAN

## Notes to the Financial Statements

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

The City of Bridgman, Michigan is a municipal corporation governed by a seven-member commission and by an appointed City Superintendent. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations.

##### *Blended component unit:*

The Building Authority is governed by a three-member board appointed by the City Commission. Its sole function is to oversee the financing and construction, if any, of the City's public buildings; therefore, it is reported as if it were part of the primary government.

##### *Discretely presented component unit:*

The City's Brownfield Authority was created to revitalize selected environmentally distressed areas within the City limits. The Authority had no assets as of June 30, 2006, and no activity for the period then ended.

#### B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

# CITY OF BRIDGMAN, MICHIGAN

## Notes to the Financial Statements

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The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

### **C. Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Intergovernmental revenues are accrued when earned. All other revenue items are considered to be measurable and available only when cash is received by the government.

# CITY OF BRIDGMAN, MICHIGAN

## Notes to the Financial Statements

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The City reports the following major governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *building authority fund* accounts for the debt service on bonds issued to finance the construction of City buildings, and the rental income collected from City departments to service that debt.

The City reports the following non-major governmental funds:

The *major streets fund* accounts for the use of motor fuel taxes which are earmarked by State statute for major street and highway purposes.

The *local streets fund* accounts for the use of motor fuel taxes which are earmarked by State statute for local street and highway purposes.

The *public improvement fund* accounts for City-wide improvement projects.

The *economic development fund* accounts for the resources accumulated to promote economic development in the City.

The *general debt-service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of the governmental funds.

The City reports the following major proprietary funds:

The *parks fund* accounts for the operation and maintenance of the City's parks and recreational facilities.

The *sewer fund* accounts for the City's participation in the Galien River Sanitary District.

The *water fund* accounts for the activities of the City's water distribution and treatment system.

Additionally, the City reports the following fund types:

The *internal service fund* accounts for fleet and equipment management to other departments on a cost reimbursement basis.



# CITY OF BRIDGMAN, MICHIGAN

## Notes to the Financial Statements

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Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the government's internal service fund are charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

### **D. Assets, liabilities and equity**

#### ***1. Deposits and investments***

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the City to deposit in the accounts of federally insured banks, credit unions and savings and loan associations and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

# **CITY OF BRIDGMAN, MICHIGAN**

## **Notes to the Financial Statements**

---

The City's investments during the year consisted solely of bank investment pools. The bank investment pools are regulated by the Michigan Banking Act and the fair value of the position in the pool is the same as the value of the pooled shares.

### **2. *Interfund receivables and payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

### **3. *Inventories and Prepaid Items***

All inventories are valued at cost using the first-in/first-out (FIFO) method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

### **4. *Capital assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items constructed or acquired after 1980), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

# CITY OF BRIDGMAN, MICHIGAN

## Notes to the Financial Statements

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Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	30
Public domain infrastructure	50
System infrastructure	50
Vehicles	3-20
Equipment	5-10

### 5. *Compensated absences*

It is the City's policy to not permit employees to accumulate unused vacation from year to year. Any vacation that is not used within the year following the year within which it was earned is considered lapsed. Non-lapsed vacation time and 1/3 of sick leave accumulated prior to June 30, 1999 are accrued in the government-wide and proprietary fund financial statements. The City does not permit accrual of sick leave earned after June 30, 1999. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

### 6. *Long-term obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

# **CITY OF BRIDGMAN, MICHIGAN**

## **Notes to the Financial Statements**

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### **7. *Fund equity***

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are externally imposed by creditors, grantors, contributors or laws or regulations of other governments. Designations of fund balance represent tentative management plans that are subject to change. In the government-wide financial statements, net assets reported as “restricted” are subject to externally imposed restrictions by laws and regulations or grantors.

## **II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **A. Budgetary information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

On or before the third Monday in May of each year, the City Superintendent must present the proposed budget to the City Commission for review. The Commission holds public hearings and a final budget must be prepared and adopted no later than the third Monday in June.

The appropriated budget is prepared by fund and department. The City Superintendent may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Commission. The legal level of budgetary control is the department level. Certain supplemental budgetary appropriations were made during the year which were not considered material.

During the year, the City created the Economic Development Special Revenue Fund. No budget was adopted for this fund.

### **B. Excess of expenditures over appropriations**

For the year ended June 30, 2006, expenditures exceeded appropriations in the following General Fund Departments: Superintendent \$217, Elections \$75, Assessor \$1,735, General Office \$10,664, Fire \$23,845, and Building Inspector \$4,111.

The Major Streets Special Revenue Fund exceeded appropriations by \$4,054 in the Traffic Services Department.

# CITY OF BRIDGMAN, MICHIGAN

## Notes to the Financial Statements

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### III. DETAILED NOTES ON ALL FUNDS

#### A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets follows:

Bank deposits (checking accounts, savings accounts and CDs)	\$ 2,499,947
Investments in mutual and cash management funds	155,469
Cash on hand	<u>400</u>
<b>Statement of Net Assets</b>	<b><u>\$ 2,655,816</u></b>

The City chooses to disclose its investments by specifically identifying each. As of year end, the City had the following deposits and investments.

	<b>Carrying Amount (Fair Value)</b>	<b><u>Credit Rating</u></b>
Mutual and cash management funds (uncategorized as to risk)	<b><u>\$ 155,469</u></b>	<b>AAAm (S&amp;P)</b>

#### Deposit and investment risk

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment credit risk. Credit risk ratings have been identified above for the City's investments.

# CITY OF BRIDGMAN, MICHIGAN

## Notes to the Financial Statements

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year end, \$2,443,463 of the City's bank balance of \$2,543,463 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. On the investments listed above, there is no custodial credit risk, as these investments are uncategorized as to credit risk.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

### B. Receivables

Receivables are comprised of the following:

	<b><u>Governmental Activities</u></b>	<b><u>Business- Type Activities</u></b>
Due from customers	\$ -	\$ 152,580
Special assessments	59,461	11,654
Due from other governments	<u>99,506</u>	<u>-</u>
	<b><u>\$ 158,967</u></b>	<b><u>\$ 164,234</u></b>
Due in more than one year:		
Special assessments	<b><u>\$ 45,935</u></b>	<b><u>\$ 10,197</u></b>

Government funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, deferred revenue of \$59,461 was recognized in governmental funds, of which \$3,263 was recognized in the general fund and \$56,198 was recognized in nonmajor governmental funds. In addition, the general fund recognized \$3,415 in unearned revenue related to unspent grant proceeds.

# CITY OF BRIDGMAN, MICHIGAN

## Notes to the Financial Statements

### C. Capital assets

Capital assets activity for the year ended June 30, 2006, was as follows:

#### Primary Government

	Beginning Balance	Additions	Disposals	Ending Balance
<b>Governmental activities</b>				
Capital assets, not being depreciated:				
Land	\$ 134,600	\$ -	\$ -	\$ 134,600
Capital assets, being depreciated:				
Buildings and improvements	1,630,400	-	-	1,630,400
Equipment	2,458,127	31,886	(30,630)	2,459,383
Infrastructure	12,664,372	-	-	12,664,372
Total capital assets being depreciated	16,752,899	31,886	(30,630)	16,754,155
Less accumulated depreciation for:				
Buildings and improvements	(849,001)	(37,513)	-	(886,514)
Equipment	(1,236,535)	(131,170)	25,525	(1,342,180)
Infrastructure	(8,250,147)	(253,534)	-	(8,503,681)
Total accumulated depreciation	(10,335,683)	(422,217)	25,525	(10,732,375)
Total capital assets being depreciated, net	6,417,216	(390,331)	(5,105)	6,021,780
Governmental activities capital assets, net	<b>\$ 6,551,816</b>	<b>\$ (390,331)</b>	<b>\$ (5,105)</b>	<b>\$ 6,156,380</b>

#### **Business-type activities**

Capital assets, not being depreciated:				
Land	\$ 59,293	\$ -	\$ -	\$ 59,293
Capital assets, being depreciated:				
Buildings, improvements, and systems	7,081,918	16,360	-	7,098,278
Equipment	391,338	-	-	391,338
Total capital assets being depreciated	7,473,256	16,360	-	7,489,616
Less accumulated depreciation for:				
Buildings, improvements, and systems	(3,281,436)	(170,601)	-	(3,452,037)
Equipment	(388,589)	(1,843)	-	(390,432)
Total accumulated depreciation	(3,670,025)	(172,444)	-	(3,842,469)
Total capital assets being depreciated, net	3,803,231	(156,084)	-	3,647,147
Business-type activities capital assets, net	<b>\$ 3,862,524</b>	<b>\$ (156,084)</b>	<b>\$ -</b>	<b>\$ 3,706,440</b>

# CITY OF BRIDGMAN, MICHIGAN

## Notes to the Financial Statements

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Depreciation expense was charged to functions/programs of the primary government as follows:

**Governmental activities:**

General government	\$ 38,217
Public safety	938
Public works	1,373
Other governmental activities	253,534
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>128,155</u>

**Total depreciation expense – governmental activities** **\$ 422,217**

**Business-type activities:**

Parks	\$ 56,955
Sewer	43,150
Water	<u>72,339</u>

**Total depreciation expense – business-type activities** **\$ 172,444**

**D. Accounts payable and accrued liabilities**

Payables are comprised of the following:

	<b>Governmental Activities</b>	<b>Business- Type Activities</b>
Accounts payable	\$ 53,674	\$ 51,052
Deposits payable	-	4,730
Accrued liabilities	<u>38,019</u>	<u>40,687</u>
	<u><b>\$ 91,693</b></u>	<u><b>\$ 96,469</b></u>



# CITY OF BRIDGMAN, MICHIGAN

## Notes to the Financial Statements

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### E. Interfund receivables, payables and transfers

At June 30, 2006, the General Fund reported an interfund receivable of \$101,187 and the Sewer Enterprise Fund reported an interfund payable of \$101,187. These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. In addition, certain amounts are reported as internal balances in the statement of net assets relative to the elimination of the Internal Service Fund.

For the year ended June 30, 2006, interfund transfers consisted of the following:

<u>Transfer Out</u>	<u>Transfers In</u>			<u>Total</u>
	<u>Non-major Governmental Funds</u>			
	<u>Local</u>	<u>Public</u>	<u>Economic</u>	
	<u>Streets</u>	<u>Improvement</u>	<u>Development</u>	
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	
General Fund	<u>\$ 25,000</u>	<u>\$ 110,000</u>	<u>\$ 20,000</u>	<u>\$ 155,000</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

### F. Long-term debt

#### *General Obligation Bonds*

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental and business-type activities. The original amount of general obligation bonds issued in prior years was \$4,024,990. No general obligation bonds were issued during the current year.

# CITY OF BRIDGMAN, MICHIGAN

## Notes to the Financial Statements

General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds are issued as 10-26 year serial bonds with varying amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Due</u>	<u>Installments</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities: 1997 building authority	2007	\$10,000 - \$175,000	4.2-4.75%	<u>\$ 175,000</u>
Business-type activities: 2003 GRSD Authority General Obligation Limited Tax Bonds	2029	\$94,530 - \$219,885	2.00-4.70%	<u>\$ 3,324,990</u>

Debt service requirements to maturity for general obligation bonds are as follows:

<u>Year Ended June 30</u>	<u>Governmental Activities</u>			<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 175,000	\$ 4,156	\$ 179,156	\$ 94,530	\$ 134,572	\$ 229,102
2008	-	-	-	96,585	132,178	228,763
2009	-	-	-	100,695	129,155	229,850
2010	-	-	-	102,750	125,977	228,727
2011	-	-	-	106,860	122,568	229,428
2012-2016	-	-	-	595,950	550,054	1,146,004
2017-2021	-	-	-	713,085	424,315	1,137,400
2022-2026	-	-	-	881,595	253,389	1,134,984
2027-2029	-	-	-	632,940	45,492	678,432
	<u>\$ 175,000</u>	<u>\$ 4,156</u>	<u>\$ 179,156</u>	<u>\$ 3,324,990</u>	<u>\$ 1,917,700</u>	<u>\$ 5,242,690</u>

### *Installment Purchase Contracts*

The City enters into installment purchase agreements to finance the acquisition of certain equipment. The original amount of the agreement entered into in prior years for the contract listed below was \$500,000. Installment purchase contracts outstanding at year end are as follows:

<u>Purpose</u>	<u>Due</u>	<u>Installments</u>	<u>Interest Rates</u>	<u>Amount</u>
Government activities: 2005 Equipment Purchase	2010	\$91,915	3.3%	<u>\$ 384,056</u>

# CITY OF BRIDGMAN, MICHIGAN

## Notes to the Financial Statements

Debt service requirements to maturity for installment purchase contracts are as follows:

<b>Year Ended June 30</b>	<b>Governmental Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2007	\$ 80,522	\$ 11,394	\$ 91,916
2008	83,203	8,712	91,915
2009	85,974	5,942	91,916
2010	88,836	3,079	91,915
2011	45,521	437	45,958
	<b>\$ 384,056</b>	<b>\$ 29,564</b>	<b>\$ 413,620</b>

### *Revenue Bonds*

The City also issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. The original amount of revenue bonds issued in prior years for the two bonds listed below was \$905,000. No revenue bonds were issued during the current year. Revenue bonds outstanding at year end are as follows:

<b><u>Purpose</u></b>	<b><u>Due</u></b>	<b><u>Installments</u></b>	<b><u>Interest Rates</u></b>	<b><u>Amount</u></b>
Business-type activities:				
1993 Water Supply System	2008	\$10,000-\$45,000	4.50-6.00%	\$ 60,000
1996 Water Supply System	2008	\$65,000-\$90,000	3.85-5.10%	155,000
				<b><u>\$ 215,000</u></b>

Debt service requirements to maturity for revenue bonds are as follows:

<b>Year Ended June 30</b>	<b>Governmental Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2007	\$ 105,000	\$ 11,415	\$ 116,415
2008	110,000	6,015	116,015
	<b>\$ 215,000</b>	<b>\$ 17,430</b>	<b>\$ 232,430</b>

# CITY OF BRIDGMAN, MICHIGAN

## Notes to the Financial Statements

### *Changes in Long-term Liabilities*

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
General Obligation					
Bonds	\$ 335,000	\$ -	\$ (160,000)	\$ 175,000	\$ 175,000
Installment Purchase					
Contracts	474,229	-	(90,173)	384,056	80,522
Compensated Absences	<u>23,572</u>	<u>45,258</u>	<u>(40,222)</u>	<u>28,608</u>	<u>16,995</u>
<b>Government activity</b>					
<b>long-term liabilities</b>	<b><u>\$ 832,801</u></b>	<b><u>\$ 45,258</u></b>	<b><u>\$ (290,395)</u></b>	<b><u>\$ 587,664</u></b>	<b><u>\$ 272,517</u></b>
<b>Business-type activities:</b>					
Revenue Bonds	\$ 315,000	\$ -	\$ (100,000)	\$ 215,000	\$ 105,000
General Obligation					
Limited Tax Bonds	3,324,990	-	-	3,324,990	94,530
Compensated Absences	<u>15,720</u>	<u>13,040</u>	<u>(11,522)</u>	<u>17,238</u>	<u>6,053</u>
<b>Business-type activity</b>					
<b>long-term liabilities</b>	<b><u>\$ 3,655,710</u></b>	<b><u>\$ 13,040</u></b>	<b><u>\$ (111,522)</u></b>	<b><u>\$3,557,228</u></b>	<b><u>\$ 205,583</u></b>

The internal service fund predominantly serves the governmental funds. Accordingly, long-term liabilities for it are included as part of the above totals for governmental activities. Also, for the governmental activities, compensated absences are generally liquidated by the general fund.

### **G. Segment information--enterprise funds**

The government issued revenue bonds to finance certain improvements to its water and sewer systems. Because the Parks Fund, Water Fund and the Sewer Fund are each reported as major funds in the fund financial statements and account entirely for a specific segment, disclosures are not required herein.

# **CITY OF BRIDGMAN, MICHIGAN**

## **Notes to the Financial Statements**

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### **IV. OTHER INFORMATION**

#### **A. Risk management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2006, the City carried insurance through various commercial carriers, including the Michigan Municipal League, to cover all risks of losses. The City has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

#### **B. Property taxes**

The City's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through August 31; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Berrien County.

Assessed values as established annually by the City, and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. Real and personal property in the City for the 2005 levy were assessed and equalized at \$99,273,581 (not including properties subject to Industrial Facilities Tax exemption), representing 42.2% of estimated current market value. The City's general operating tax rate for fiscal year 2005-06 was 14.6824 mills.

#### **C. Defined benefit pension plan**

Effective July 1, 2005, the City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. The Plan provides retirement and disability benefits, annual cost of living adjustments, and death benefits to Plan members and beneficiaries. The MERS Retirement Board establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917, or by calling (800) 767-6377.

# CITY OF BRIDGMAN, MICHIGAN

## Notes to the Financial Statements

The City is required to contribute at an actuarially determined rate; the current rate is 8.32% of annual covered payroll. City employees are required to contribute 2.0% of their annual covered payroll. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the City.

For the year ended June 30, 2006, the City's annual pension cost of \$41,351 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit.

The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2004, the date of the latest actuarial valuation, was 25 years.

### Three-Year Trend Information \*

<u>Years Ended June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation</u>
2006	\$ 41,351	100%	\$ -

### Schedule of Funding Progress \*

<u>Actuarial Valuation Date</u>	<u>(a) Actuarial Value of Assets</u>	<u>(b) Actuarial Accrued Liability (AAL) Entry Age</u>	<u>(b-a) Unfunded AAL (UAAL)</u>	<u>Funded Ratio Total</u>	<u>(c) Covered Payroll</u>	<u>((b-a)/c) UAAL as a Percentage of Covered Payroll</u>
12/31/05	\$326,605	\$753,794	\$(427,189)	43%	\$532,046	80%

\* - Because the City's participation in MERS began on July 1, 2005, only one-year's information is available.

# CITY OF BRIDGMAN, MICHIGAN

## Notes to the Financial Statements

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### D. Construction code fees

The City oversees building construction, in accordance with the State's construction code act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the activity since July 1, 2005 is as follows:

Building permit revenue	\$ 10,149
Related expenses:	
Building inspector	<u>(23,711)</u>
<b>Shortfall</b>	<b><u>\$ (13,562)</u></b>

### E. Investment in the Galien River Sanitary District

The Galien River Sanitary District Sewer Authority (the "Authority") is a legally separate entity, created through a joint venture by area governments in Berrien County, Michigan. The City of Bridgman became a constituent member (owner) of the Authority in 2004.

Participating municipalities and their respective shares of ownership are as follows:

	<b><u>Percent Of Ownership</u></b>
Chikaming Township	28.6%
New Buffalo City	21.6%
New Buffalo Township	16.6%
Lake Charter Township	16.6%
Bridgman City	<u>16.6%</u>
	<b><u>100.0%</u></b>

# CITY OF BRIDGMAN, MICHIGAN

## Notes to the Financial Statements

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The City of Bridgman is accounting for its investment in the Authority as a joint venture in accordance with GASB Statement 14. Information presented below is taken from financial statements of the Authority for the year ended December 31, 2005, audited by other auditors, whose report dated May 5, 2006, expressed an unqualified opinion on those statements.

Summary information of the city of Bridgman's investment in the Authority for the year ended June 30, 2006, is as follows:

	<b><u>Total GRSD Authority</u></b>	<b><u>City of Bridgman 16.6%</u></b>
Total assets	\$ 15,414,413	\$ 2,558,793
Total liabilities	<u>149,112</u>	<u>24,753</u>
<b>Net assets</b>	<b><u>\$15,265,301</u></b>	<b><u>\$ 2,534,040</u></b>
Operating revenues	\$ 1,396,834	\$ 231,874
Operating expenses	<u>1,373,140</u>	<u>227,941</u>
Operating income	23,694	3,933
Non-operating income	<u>101,434</u>	<u>16,838</u>
Change in net assets	125,128	20,771
Net assets, beginning of year	<u>15,140,173</u>	<u>2,513,269</u>
<b>Net assets, end of year</b>	<b><u>\$15,265,301</u></b>	<b><u>\$ 2,534,040</u></b>

Complete financial statements for the Galien River Sanitary District Sewer Authority may be obtained at the Authority's administrative office.

Galien River Sanitary District Sewer Authority  
10831 Kruger Road  
New Buffalo MI 49117

\* \* \* \* \*



## SUPPLEMENTARY INFORMATION

**CITY OF BRIDGMAN, MICHIGAN**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2006**

	<b>Special Revenue Funds</b>				<b>General</b>	<b>Total</b>
	<b>Major</b>	<b>Local</b>	<b>Public</b>	<b>Economic</b>	<b>Debt</b>	<b>Governmental</b>
	<b>Streets</b>	<b>Streets</b>	<b>Improvement</b>	<b>Development</b>	<b>Service</b>	<b>Funds</b>
<b><u>ASSETS</u></b>						
<b>Assets</b>						
Cash and cash equivalents	\$ 193,616	\$ 4,072	\$ 62,689	\$ 13,817	\$ 119,575	\$ 393,769
Special assessments receivable	-	-	56,198	-	-	56,198
Due from other governments	21,415	7,061	-	-	-	28,476
Prepaid items	771	418	-	-	-	1,189
<b><u>TOTAL ASSETS</u></b>	<b>\$ 215,802</b>	<b>\$ 11,551</b>	<b>\$ 118,887</b>	<b>\$ 13,817</b>	<b>\$ 119,575</b>	<b>\$ 479,632</b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>						
<b>Liabilities</b>						
Accounts payable	\$ 4,894	\$ 4,005	\$ 115	\$ 12,465	\$ -	\$ 21,479
Accrued liabilities	750	677	-	-	-	1,427
Deferred revenue	-	-	56,198	-	-	56,198
Total liabilities	5,644	4,682	56,313	12,465	-	79,104
<b>Fund balances:</b>						
Reserved for prepaid items	771	418	-	-	-	1,189
Unreserved, undesignated	209,387	6,451	62,574	1,352	119,575	399,339
Total fund balances	210,158	6,869	62,574	1,352	119,575	400,528
<b><u>TOTAL LIABILITIES</u></b>	<b>\$ 215,802</b>	<b>\$ 11,551</b>	<b>\$ 118,887</b>	<b>\$ 13,817</b>	<b>\$ 119,575</b>	<b>\$ 479,632</b>
<b><u>AND FUND BALANCES</u></b>						

**CITY OF BRIDGMAN, MICHIGAN**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2006**

	<b>Special Revenue Funds</b>				<b>General</b>	<b>Total</b>
	<b>Major</b>	<b>Local</b>	<b>Public</b>	<b>Economic</b>	<b>Debt</b>	<b>Governmental</b>
	<b>Streets</b>	<b>Streets</b>	<b>Improvement</b>	<b>Development</b>	<b>Service</b>	<b>Funds</b>
<b>Revenues</b>						
Special assessments	\$ -	\$ -	\$ 4,227	\$ -	\$ 27,899	\$ 32,126
Intergovernmental	131,166	42,834	-	-	-	174,000
Investment earnings	4,937	6,479	30	-	12,167	23,613
Other	-	-	3,425	-	-	3,425
Total revenues	136,103	49,313	7,682	-	40,066	233,164
<b>Expenditures</b>						
Current:						
Highways and streets	74,343	71,525	-	-	-	145,868
Other	-	-	115,700	18,648	-	134,348
Total expenditures	74,343	71,525	115,700	18,648	-	280,216
Revenues over (under) expenditures	61,760	(22,212)	(108,018)	(18,648)	40,066	(47,052)
<b>Other financing sources</b>						
Transfers in	-	25,000	110,000	20,000	-	155,000
Net change in fund balances	61,760	2,788	1,982	1,352	40,066	107,948
Fund balances, beginning of year	148,398	4,081	60,592	-	79,509	292,580
<b>Fund balances, end of year</b>	<b>\$ 210,158</b>	<b>\$ 6,869</b>	<b>\$ 62,574</b>	<b>\$ 1,352</b>	<b>\$ 119,575</b>	<b>\$ 400,528</b>

**CITY OF BRIDGMAN, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**Major Streets**  
**For the Year Ended June 30, 2006**

	<b>Budgeted Amounts</b>			<b>Actual Over (Under) Final Budget</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
<b>Revenues</b>				
Intergovernmental	\$ 125,000	\$ 125,000	\$ 131,166	\$ 6,166
Investment earnings	-	-	4,937	4,937
Total revenues	125,000	125,000	136,103	11,103
<b>Expenditures</b>				
Highways and streets:				
Routine maintenance	41,500	41,500	37,592	(3,908)
Traffic services	4,800	4,800	8,854	4,054
Winter services	33,000	33,000	27,897	(5,103)
Total expenditures	79,300	79,300	74,343	(4,957)
Net change in fund balance	45,700	45,700	61,760	16,060
Fund balance, beginning of year	148,398	148,398	148,398	-
<b>Fund balance, end of year</b>	<b>\$ 194,098</b>	<b>\$ 194,098</b>	<b>\$ 210,158</b>	<b>\$ 16,060</b>

**CITY OF BRIDGMAN, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**Local Streets**  
**For the Year Ended June 30, 2006**

	<b>Budgeted Amounts</b>			<b>Actual Over (Under) Final Budget</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
<b>Revenues</b>				
Intergovernmental	\$ 42,000	\$ 42,000	\$ 42,834	\$ 834
Investment earnings	-	-	6,479	6,479
Total revenues	42,000	42,000	49,313	7,313
<b>Expenditures</b>				
Highways and streets:				
Routine maintenance	45,400	45,400	45,331	(69)
Traffic services	2,900	2,900	2,542	(358)
Winter services	26,200	26,200	23,652	(2,548)
Total expenditures	74,500	74,500	71,525	(2,975)
Revenues (under) expenditures	(32,500)	(32,500)	(22,212)	10,288
<b>Other financing sources</b>				
Transfers in	-	-	25,000	25,000
Net change in fund balance	(32,500)	(32,500)	2,788	35,288
Fund balance, beginning of year	4,081	4,081	4,081	-
<b>Fund balance (deficit), end of year</b>	<b>\$ (28,419)</b>	<b>\$ (28,419)</b>	<b>\$ 6,869</b>	<b>\$ 35,288</b>

**CITY OF BRIDGMAN, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**Public Improvement**  
**For the Year Ended June 30, 2006**

	<b>Budgeted Amounts</b>			<b>Actual Over (Under) Final Budget</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
<b>Revenues</b>				
Special assessments	\$ -	\$ -	\$ 4,227	\$ 4,227
Investment earnings	-	-	30	30
Other	-	-	3,425	3,425
Total revenues	-	-	7,682	7,682
<b>Expenditures</b>				
Other - public improvement	250,000	250,000	115,700	(134,300)
Revenues over (under) expenditures	(250,000)	(250,000)	(108,018)	141,982
<b>Other financing sources</b>				
Transfers in	250,000	250,000	110,000	(140,000)
Net change in fund balance	-	-	1,982	1,982
Fund balance, beginning of year	60,592	60,592	60,592	-
<b>Fund balance, end of year</b>	<b>\$ 60,592</b>	<b>\$ 60,592</b>	<b>\$ 62,574</b>	<b>\$ 1,982</b>

# **STATISTICAL SECTION**

## STATISTICAL SECTION

This part of the City of Bridgman's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and requires supplementary information says about the city's overall financial health

<b>Contents</b>	<b>Pages</b>
Financial Trends <i>These schedules contain trend information to help the reader understand how the city's financial performance and well-being have changed over time.</i>	53-57
Revenue Capacity <i>These schedules contain information to help the reader assess the factors affecting the city's ability to generate its property taxes.</i>	58-61
Debt Capacity <i>These schedules present information to help the reader assess the affordability of the city's current levels of outstanding debt and the city's ability to issue additional debt in the future.</i>	62-66
Demographic and Economic Information <i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the city's financial activities take place and to help make comparisons over time and with other governments.</i>	67-68
Operating Information <i>These schedules contain information about the city's operations and resources to help the reader understand how the city's financial information relates to the services the city provides and the activities it performs.</i>	69-71

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The city implemented Statement 34 in 2001; schedules presenting government-wide information include information beginning in that year.



**CITY OF BRIDGMAN, MICHIGAN**  
**Net Assets by Component**  
**Last Six Fiscal Years**

	Fiscal Year					
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Governmental activities						
Invested in capital assets, net of related	\$ 5,513,427	\$ 5,947,381	\$ 5,794,862	\$ 5,694,849	\$ 5,742,587	\$ 5,597,324
Restricted	477,527	503,323	439,866	459,601	434,601	520,900
Unrestricted	1,968,536	1,654,091	1,831,839	1,849,088	1,664,161	1,859,342
Total governmental activities net assets	\$ 7,959,490	\$ 8,104,795	\$ 8,066,567	\$ 8,003,538	\$ 7,841,349	\$ 7,977,566
Business-type activities						
Invested in capital assets, net of related	\$ 3,418,724	\$ 3,557,696	\$ 3,560,677	\$ 3,543,889	\$ 3,547,524	\$ 3,491,440
Unrestricted	1,136,882	1,249,918	1,492,216	87,877	(172,405)	(269,471)
Total business-type activities net assets	\$ 4,555,606	\$ 4,807,614	\$ 5,052,893	\$ 3,631,766	\$ 3,375,119	\$ 3,221,969
Primary government						
Invested in capital assets, net of related	\$ 8,932,151	\$ 9,505,077	\$ 9,355,539	\$ 9,238,738	\$ 9,290,111	\$ 9,088,764
Restricted	477,527	503,323	439,866	459,601	434,601	520,900
Unrestricted	3,105,418	2,904,009	3,324,055	1,936,965	1,491,756	1,589,871
Total primary government net assets	\$ 12,515,096	\$ 12,912,409	\$ 13,119,460	\$ 11,635,304	\$ 11,216,468	\$ 11,199,535

Source: City of Bridgman Treasurer's Department

**CITY OF BRIDGMAN, MICHIGAN**  
**Changes in Net Assets**  
**Last Six Fiscal Years**

	Fiscal Year					
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>Expenses</b>						
Governmental activities						
General government	\$ 332,590	\$ 346,501	\$ 361,480	\$ 449,860	\$ 420,647	\$ 377,141
Public safety	335,614	379,343	399,560	434,042	411,019	486,417
Public works	252,294	68,077	161,932	240,407	555,602	316,746
Highways and streets	303,825	408,491	436,368	159,845	154,813	145,868
Other governmental activities	304,738	307,248	364,354	634,547	665,505	568,737
Interest on long-term debt	72,014	57,642	44,430	31,471	27,289	26,349
Total governmental activities expenses	1,601,075	1,567,302	1,768,124	1,950,172	2,234,875	1,921,258
Business-type activities						
Parks	218,319	214,646	246,152	233,410	255,393	260,185
Sewer	410,596	298,381	309,382	1,882,112	595,219	607,269
Water	414,461	356,970	355,757	458,093	393,287	367,445
Total business-type activities expenses	1,043,376	869,997	911,291	2,573,615	1,243,899	1,234,899
Total primary government expenses	2,644,451	2,437,299	2,679,415	4,523,787	3,478,774	3,156,157
<b>Program Revenues</b>						
Governmental activities						
Charges for services						
General government	17,785	2,858	3,766	2,961	6,742	4,911
Public safety	6,752	8,215	7,084	8,167	9,818	12,037
Other governmental activities	51,000	51,000	125,080	127,309	132,600	-
Operating grants and contributions	163,177	174,181	174,706	188,950	184,052	181,721
Capital grants and contributions	225,545	-	-	(1,525)	-	20,232
Total governmental activities program revenues	464,259	236,254	310,636	325,862	333,212	218,901
Business-type activities						
Charges for services						
Parks	138,227	133,371	148,308	146,068	170,059	179,065
Sewer	299,032	290,273	313,843	448,503	473,588	547,268
Water	325,662	313,522	370,333	344,711	321,459	342,394
Capital grants and contributions	526,859	132,741	41,159	-	14,568	-
Total business-type activities program revenues	1,289,780	869,907	873,643	939,282	979,674	1,068,727
Total primary government revenues	1,754,039	1,106,161	1,184,279	1,265,144	1,312,886	1,287,628

continued ...

**CITY OF BRIDGMAN, MICHIGAN**  
**Changes in Net Assets**  
**Last Six Fiscal Years**

	Fiscal Year					
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Net (Expense)/Revenue						
Governmental activities	\$ (1,136,816)	\$ (1,331,048)	\$ (1,457,488)	\$ (1,624,310)	\$ (1,901,663)	\$ (1,702,357)
Business-type activities	246,404	(90)	(37,648)	(1,634,333)	(264,225)	(166,172)
Total primary government net expense	(890,412)	(1,331,138)	(1,495,136)	(3,258,643)	(2,165,888)	(1,868,529)
<b>General Revenues and Other Changes in Net Assets</b>						
Governmental activities						
Property taxes	1,278,877	1,329,086	1,372,011	1,415,100	1,414,401	1,481,646
Grants and contributions not restricted to specific programs	343,815	305,795	291,762	332,077	264,868	258,436
Unrestricted investment earnings	138,052	71,372	25,437	21,104	60,205	98,492
Gain on sale of capital assets	22,891	100	50	-	-	-
Transfers - internal activities	(155,000)	(230,000)	(270,000)	(207,000)	-	-
Total governmental activities	1,628,635	1,476,353	1,419,260	1,561,281	1,739,474	1,838,574
Business-type activities						
Grants and contributions not restricted to specific programs	10,628	11,728	8,203	3,569	3,958	2,954
Unrestricted investment earnings	68,303	10,370	4,724	2,637	3,620	10,068
Transfers - internal activities	155,000	230,000	270,000	207,000	-	-
Total business-type activities	233,931	252,098	282,927	213,206	7,578	13,022
Total primary government	1,862,566	1,728,451	1,702,187	1,774,487	1,747,052	1,851,596
<b>Change in Net Assets</b>						
Governmental activities	491,819	145,305	(38,228)	(63,029)	(162,189)	136,217
Business-type activities	480,335	252,008	245,279	(1,421,127)	(256,647)	(153,150)
Total primary government	\$ 972,154	\$ 397,313	\$ 207,051	\$ (1,484,156)	\$ (418,836)	\$ (16,933)

Source: City of Bridgman Treasurer's Department

**Schedule 3**  
**UNAUDITED**

**CITY OF BRIDGMAN, MICHIGAN**  
**Fund Balances - Governmental Funds**  
**Fiscal 2006**

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General Fund	
Reserved	\$     7,552
Unreserved	<u>1,427,977</u>
Total general fund	<u><u>\$ 1,435,529</u></u>
All Other Governmental Funds	
Reserved	\$     1,189
Unreserved, reported in:	
Special revenue funds	279,764
Debt service funds	<u>244,412</u>
Total all other governmental funds	<u><u>\$  525,365</u></u>

Source: City of Bridgman Treasurer's Department

**CITY OF BRIDGMAN, MICHIGAN**  
**Change in Fund Balances - Governmental Funds**  
**Last Six Fiscal Years**

	Fiscal Year					
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>Revenues</b>						
Property taxes	\$ 1,278,877	\$ 1,329,086	\$ 1,372,011	\$ 1,415,100	\$ 1,414,401	\$ 1,481,646
Special assessments	111,890	103,602	73,750	83,834	42,627	41,204
Intergovernmental	442,459	441,105	419,101	465,085	413,287	407,435
Charges for services	18,108	3,085	4,176	3,590	7,149	5,478
Investment earnings	114,452	70,602	19,657	15,221	56,608	98,492
Licenses and permits	32,232	35,694	37,655	40,055	32,997	29,297
Fines and forfeitures	6,429	7,988	6,674	7,538	9,411	11,470
Rent	51,000	51,000	125,080	127,309	132,600	175,000
Other	32,301	3,177	9,713	4,787	2,636	3,425
Total revenues	2,087,748	2,045,339	2,067,817	2,162,519	2,111,716	2,253,447
<b>Expenditures</b>						
General government	292,888	315,712	329,289	335,222	353,429	334,057
Public safety	396,703	420,153	437,047	465,428	412,074	485,433
Public works	158,742	194,506	171,973	202,315	189,031	202,575
Highways and streets	201,972	161,077	185,108	159,845	154,813	145,868
Other	471,315	669,244	402,424	447,608	776,322	605,903
Debt service:						
Principal	235,000	290,000	215,000	215,000	175,000	160,000
Interest and fiscal charges	70,346	56,690	42,218	30,938	20,660	12,343
Total expenditures	1,826,966	2,107,382	1,783,059	1,856,356	2,081,329	1,946,179
Excess of revenues over (under) expenditures	260,782	(62,043)	284,758	306,163	30,387	307,268
<b>Other Financing Sources (Uses)</b>						
Transfers in	436,054	588,300	225,800	85,000	305,000	155,000
Transfers out	(591,054)	(818,300)	(495,800)	(292,000)	(305,000)	(155,000)
Proceeds from sale of capital assets	11,303	100	50	-	-	-
Total other financing sources (uses)	(143,697)	(229,900)	(269,950)	(207,000)	-	-
Net change in fund balances	\$ 117,085	\$ (291,943)	\$ 14,808	\$ 99,163	\$ 30,387	\$ 307,268
Debt service as a percentage of noncapital expenditures	20.1%	19.7%	16.9%	15.3%	10.4%	9.7%

Source: City of Bridgman Treasurer's Department

**CITY OF BRIDGMAN, MICHIGAN**  
**Equalized Value of Taxable Property**  
**Last Ten Fiscal Years**

Fiscal Year Ended June 30,	Residential Property	Commercial Property	Industrial Property	Industrial Facilities Exemption Property	Agricultural Property	Total Assessed Value	City Operating Millage
2006	\$ 97,261,350	\$ 13,333,150	\$ 7,189,350	\$ 4,128,100	\$ -	* \$ 121,911,950	\$ 14.6824
2005	96,214,500	12,568,300	7,085,600	3,565,315	8,232,200	127,665,915	14.9270
2004	91,844,405	11,118,800	7,632,700	2,611,600	8,232,200	121,439,705	15.0156
2003	79,540,600	11,043,100	7,632,700	1,744,500	6,111,000	106,071,900	15.1229
2002	74,604,300	10,548,900	6,871,500	1,328,705	6,111,000	99,464,405	15.1624
2001	74,604,300	10,548,900	3,674,476	3,197,024	6,111,000	98,135,700	15.2020
2000	71,211,800	10,197,200	6,626,500	3,718,700	4,759,000	96,513,200	15.2020
1999	65,509,600	9,613,800	6,263,800	2,920,400	4,759,000	89,066,600	15.2020
1998	61,239,700	9,292,800	5,794,800	2,980,300	2,192,800	81,500,400	15.2020
1997	60,409,400	9,109,900	5,484,900	3,529,100	2,192,800	80,726,100	15.2020

\* In 2006, Michigan Department of Natural Resources property was reclassified as Payment-in-lieu-of-taxes (ILT) property.

**CITY OF BRIDGMAN, MICHIGAN**  
**Direct and Overlapping Property Tax Rates**  
**Last Six Fiscal Years**

Fiscal Year Ended June 30,	City Direct Rate	Overlapping Rates*						Totals	
		City Library Operating	Bridgman Public Schools	State Education Tax	Berrien Intermediate School District	Lake Michigan College	Berrien County	Non-	
								Homestead	Homestead
2006	\$ 14.6824	\$ 1.7090	\$ 8.8760	\$ 6.0000	\$ 2.3890	\$ 1.8060	\$ 5.7065	\$ 32.7929	\$ 41.1689
2005	14.9270	1.7376	8.8760	6.0000	2.3998	1.8174	5.6677	33.0495	41.4255
2004	15.0156	1.7480	9.3760	5.0000	2.4042	1.8209	5.6769	32.6656	41.0416
2003	15.1229	1.7509	8.3760	6.0000	2.4326	1.8481	5.7410	32.8955	41.2715
2002	15.1624	1.7555	8.3719	6.0000	2.4377	1.8492	5.7466	32.9514	41.3233
2001	15.2020	1.7601	8.3760	6.0000	2.4475	1.8560	5.7705	33.0361	41.4121

\* Overlapping rates are those of local and county governments that apply to property owners within the City of Bridgman.

**CITY OF BRIDGMAN, MICHIGAN**  
**Principal Property Taxpayers**  
**Current Year and Five Years Ago**

Taxpayer	Fiscal 2006			Fiscal 2001		
	Total Taxable Valuation (1)	Rank	Percentage of Total City Taxable Value	Total Taxable Valuation (1)	Rank	Percentage of Total City Taxable Value
LBC Corporation/American Electric Power	\$ 2,108,170	1	2.21%	\$ 696,600	9	0.91%
ICG Berrien	1,886,996	2	1.98%			
PIA Properties LLC	1,251,300	3	1.31%			
Jordan's Nursing Home	1,134,023	4	1.19%	1,122,000	6	1.46%
Bridgman Michigan LLC	913,274	5	0.96%	1,084,941	7	1.41%
Great Lakes Metal Stamping	912,200	6	0.96%	1,068,400	8	1.39%
Bridgman Estates	826,082	7	0.87%			
Ad-Co Die Casting Corp.	563,171	8	0.59%	1,938,313	4	2.53%
Robert Bosch Corporation	538,047	9	0.56%	672,243	10	0.88%
BridgmanBuilding Associates	482,852	10	0.51%			
Pemco Die Casting				3,617,169	1	4.71%
Gast Manufacturing				3,086,592	2	4.02%
Weldun International				2,471,627	3	3.22%
Michigan Department of Natural Resources				1,530,304	5	1.99%

Includes ad valorem and Industrials Facilities Tax property. Excludes personal property.



**Schedule 8**  
**UNAUDITED**

**CITY OF BRIDGMAN, MICHIGAN**  
**Property Tax Levied and Collections**  
**Last Six Fiscal Years**

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Current Tax Collections	Percentage of Levy Collected
2006	\$ 1,481,646	\$ 1,481,646	100%
2005	1,414,401	1,414,401	100%
2004	1,415,100	1,338,578	100%
2003	1,372,011	1,372,011	100%
2002	1,329,086	1,329,086	100%
2001	1,278,877	1,278,877	100%

Unpaid summer property taxes roll over onto the winter tax bill with a 4% penalty. Taxes are, therefore, not considered delinquent until March 1. At that time, delinquent ad valorem and personal property taxes are purchased by Berrien County and are no longer the city's responsibility to collect.

**CITY OF BRIDGMAN, MICHIGAN**  
**Ratios of Outstanding Debt by Type**  
**Last Six Fiscal Years**

Fiscal Year Ended June 30,	Governmental Activities			Business-Type Activities		Total Primary Government	Percentage of Taxable Value	Per Capita
	General Obligation Bonds	Special Assessment Bonds	Installment Purchase Contracts	Revenue Bonds	General Obligation Bonds			
2006	\$ 175,000	\$ -	\$ 384,056	\$ 215,000	\$ 3,324,990	\$ 4,099,046	4.07 %	1,688
2005	335,000	-	474,229	315,000	3,324,990	4,449,219	4.34	1,832
2004	485,000	25,000	26,086	410,000	3,324,990	4,271,076	4.50	1,759
2003	625,000	100,000	55,004	535,000	-	1,315,004	1.39	542
2002	755,000	185,000	82,953	645,000	-	1,667,953	1.87	687
2001	910,000	320,000	95,983	750,000	-	2,075,983	2.42	855

**CITY OF BRIDGMAN, MICHIGAN**  
**Ratio of Net General Bonded Debt to Taxable Value and Per Capita**  
**Last Ten Fiscal Years**

Fiscal Year Ended June 30,	Population	Taxable Value (1)	Gross Bonded Debt (2)	Less Debt Service Fund Amounts (3)	Net Bonded Debt	Ratio of Net Bonded Debt to Taxable Value	Net Bonded Debt per Capita
2006	2,428	\$ 100,813,699	\$ 3,499,990	\$ 244,412	\$ 3,255,578	3.23%	\$ 1,341
2005	2,428	102,427,404	3,659,990	201,690	3,458,300	3.38%	1,424
2004	2,428	95,005,696	485,000	240,144	244,856	0.26%	101
2003	2,428	94,303,596	625,000	273,245	351,755	0.37%	145
2002	2,428	89,232,919	755,000	278,786	476,214	0.53%	196
2001	2,428	85,946,943	910,000	287,126	622,874	0.72%	257
2000	2,428	80,233,207	1,020,000	121,864	898,136	1.12%	370
1999	2,140	78,579,828	1,140,000	120,289	1,019,711	1.30%	477
1998	2,140	72,827,817	1,260,000	107,939	1,152,061	1.58%	538
1997	2,140	66,744,367	665,000	1,156	663,844	0.99%	310

- (1) Includes ad valorem and personal property tax  
(2) Amounts include only general obligation bonds  
(3) Represents amounts available for repayment of general obligation bonds

**CITY OF BRIDGMAN, MICHIGAN**  
**Computation of Direct and Overlapping Bonded Debt**

	<u>Debt Outstanding</u>	<u>Percentage Applicable</u>	<u>Share of Overlapping Debt</u>
Overlapping:			
Berrien County	\$ 11,348,039	1.81%	\$ 205,400
Lake Michigan Community College	7,350,000	1.66%	122,010
Direct:			
City direct debt			3,499,990
			<hr/>
Total overlapping and direct debt			<u><u>\$ 3,827,400</u></u>

Source: Municipal Advisory Council of Michigan

**CITY OF BRIDGMAN, MICHIGAN**  
**Legal Debt Margin**  
**Last Six Fiscal Years**

Legal Debt Margin Calculation for Fiscal Year 2006:

Taxable Value	\$ 100,813,699
Debt Limit (10% of taxable value)	10,081,370
Debt applicable to limit:	
General Obligation Bonds	3,499,990
Less: Amounts available for repayment of general obligation bonds	<u>(244,412)</u>
Total net debt applicable to limit	<u>3,255,578</u>
Legal debt margin	<u><u>\$ 6,825,792</u></u>

	Fiscal Year					
	2001	2002	2003	2004	2005	2006
Debt limit	\$ 8,594,694	\$ 8,603,590	\$ 9,458,447	\$ 9,500,570	\$ 9,927,358	\$ 10,081,370
Total net debt applicable to limit	<u>774,275</u>	<u>632,236</u>	<u>747,764</u>	<u>805,475</u>	<u>3,861,679</u>	<u>3,255,578</u>
Legal debt margin	<u><u>\$ 7,820,419</u></u>	<u><u>\$ 7,971,354</u></u>	<u><u>\$ 8,710,683</u></u>	<u><u>\$ 8,695,095</u></u>	<u><u>\$ 6,065,679</u></u>	<u><u>\$ 6,825,792</u></u>
Total net debt applicable to the limit as a percentage of debt limit	9.01%	7.35%	7.91%	8.48%	38.90%	32.29%

Note: Article VII, Paragraph II of the Constitution of the State of Michigan of 1963, as amended, states that legal debt level is limited to 10% of the total taxable value.

**CITY OF BRIDGMAN, MICHIGAN**  
**Pledged-Revenue Coverage**  
**Last Six Fiscal Years**

Fiscal Year Ended June 30,	Water Revenue Bonds					Sewer Revenue Bonds				
	Utility Service Charges	Less: Operating Expenses	Net Available Revenue	Total Debt Service Requirement	Coverage	Utility Service Charges	Less: Operating Expenses	Net Available Revenue	Total Debt Service Requirement	Coverage
2006	\$ 342,394	\$ 250,977	\$ 91,417	\$ 116,425	0.79	\$ -	\$ -	\$ -	\$ -	-
2005	321,459	287,721	33,738	116,165	0.29	-	-	-	-	-
2004	344,711	230,325	114,386	120,795	0.95	448,503	294,483	154,020	84,157	1.83
2003	373,105	248,471	124,634	114,805	1.09	315,099	263,432	51,667	28,060	1.84
2002	319,650	240,938	78,712	112,880	0.70	294,587	250,951	43,636	29,560	1.48
2001	347,699	295,075	52,624	118,040	0.45	342,949	361,773	(18,824)	26,460	(0.71)

Note: Operating expenses do not include interest, depreciation or amortization expenses.

**CITY OF BRIDGMAN, MICHIGAN**  
**Demographic and Economic Information**  
**Last Two Censuses**

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Population		Per Capita Income		Unemployment Rate		Median Housing Value		Number of Households	
2000	1990	2000	1990 *	2000	1990	2000	1990 *	2000	1990
2,428	2,140	\$25,405	\$18,170	2.3%	4.5%	\$122,600	\$75,892	998	841

\* In 2000 dollars

**Schedule 15**  
**UNAUDITED**

**CITY OF BRIDGMAN, MICHIGAN**  
**Principal Employers**  
**Current Year**

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<u>Rank</u>	<u>Employer</u>	<u>Employees</u>
1	Jordan's Nursing Home	123
2	Eagle Technologies	92
3	Great Lakes Metal Stamping	83
4	Bridgman School District	80
5	Industrial Castings Group (ICG)	62
6	Michigan State Police - Bridgman Post	42
7	Mead & White Electrical Contractors	35
8	Southwestern Medical Clinic	35
9	Industrial Fabrication	30
10	Robert Bosch Corporation	30



**CITY OF BRIDGMAN, MICHIGAN**  
**City Government Employees, Officers, Contractors and Volunteers by Function/Program**  
**Last Six Fiscal Years**

Function/Program	2001	2002	2003	2004	2005	2006
Commissioners	7	7	7	7	7	7
Superintendent and General Office	6	6	6	6	6	6
Police						
Full-time	4	4	4	4	4	4
On-call	4	4	4	4	4	4
Volunteer Firefighters and Officers	15	16	15	17	18	15
Water and Sewer/Parks	3	3	3	3	3	3
Public Works	3	3	3	4	4	4
Total	<u>42</u>	<u>43</u>	<u>42</u>	<u>45</u>	<u>46</u>	<u>43</u>

**CITY OF BRIDGMAN, MICHIGAN**  
**Operating Indicators by Function/Programs**  
**Fiscal 2006**

Function/Program	
Police	
Physical arrests	196
Parking violations	483
Traffic violations	358
Fire	
Medical responses	107
Fire calls	9
Rescue and extrication	10
Personal injury accident	6
General assistance, investigations and other	37
Total calls	169
Water	
Gallons pumped	1,039,235
Dollars sold	\$ 277,612
Wastewater	
Gallons treated	702,635
Dollars sold	\$ 521,527

**CITY OF BRIDGMAN, MICHIGAN**  
**Capital Asset Statistics by Function/Program**  
**Fiscal 2006**

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Function/Program	
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Area in square miles	2.9
Streets:	
Major (miles)	5.8
Local (miles)	8.4
Number of street lights	243
Parks:	
Beach acreage	40
Number of camp sites	70
Park acreage	8
Number of parks	2
Playgrounds (city owned)	3
Playgrounds (school owned)	1
Water:	
Miles of water mains	25
Number of service connections:	
Combined water and sewer	894
Water only	187
Sewer only	3
Number of fire hydrants	225
Wastewater:	
Miles of sanitary sewers	20
Miles of storm sewers	25



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP



September 21, 2006

To the City Commission of the  
City of Bridgman  
Bridgman, Michigan

We have audited the financial statements of the City of Bridgman for the year ended June 30, 2006, and have issued our report thereon dated September 21, 2006. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility Under Auditing Standards Generally Accepted in the United States of America**

As stated in our engagement letter dated July 6, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the City of Bridgman. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

### **Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Bridgman are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the City of Bridgman during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the original cost and accumulated depreciation of its infrastructure capital assets is based on current replacement costs, and an assumed rate of inflation from the dates of original acquisition/construction. We evaluated the key factors assumptions used to develop the original cost and accumulated depreciation of the City's infrastructure capital assets in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City of Bridgman's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the City of Bridgman, either individually or in the aggregate, indicate matters that could have a significant effect on the City of Bridgman's financial reporting process.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Bridgman's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Difficulties Encountered in Performing the Audit**

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the City Commission, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style. The first name "Lehmann" is followed by the last name "Johnson". The signature is positioned below the text "Very truly yours,".

**City of Bridgman**  
**Comments and Recommendations**  
**For the Year Ended June 30, 2006**

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During our audit we became aware of certain issues regarding internal control and financial reporting. This memorandum summarizes our comments and suggestions regarding these matters. This memorandum does not affect our report dated September 21, 2006, on the financial statements of the City of Bridgman.

**Internal Controls – Segregation of Duties**

Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the City's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances.

As is the case with many organizations of similar size, the City lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of a government's internal controls carries with it a greater risk of fraud and abuse.

As stated previously, the establishing and maintaining of internal controls is the responsibility of management. As the City's independent external auditors, we are specifically banned by professional standards from performing any management functions. In other words, the annual audit is not a part of the City's internal control structure, and cannot be relied upon as part of *management's* systems to deter or detect fraud and abuse.

While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible. Following are examples of internal controls policies that could be strengthened.

**City of Bridgman**  
**Comments and Recommendations**  
**For the Year Ended June 30, 2006**

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**Payroll**

Currently, the City does not have a system in place to require an independent review of the payroll register by an authorized individual not responsible for preparing checks. We recommend that the City implement such a procedure to ensure that a review is conducted prior to the issuance of payroll checks.

**Journal Entries**

As part of our audit, we examined various journal entries to comply with the new Statement on Auditing Standards (SAS) 99. We noted that journal entries are not initialed or signed by someone other than the preparer as a check for journal entry completeness and accuracy. In order to enhance internal controls in this area, we recommend that all journal entries be reviewed, initialed and dated by both the preparer and independent reviewer.

**Capital Assets**

The City's internal control policies do not currently include an annual review of capital asset records by departmental employees for additions and disposals. We recommend that the City distribute the capital asset listing to all departments on an annual basis to ensure that records remain accurate and complete.

**Council Approval of Disbursements**

The Michigan Department of Treasury recently modified its requirements for auditors submitting reports on their audits of local governments. Under the new rules, auditors must report on whether governments are complying with the Treasury regulation that "all disbursements must be approved by the legislative body prior to disbursement unless addressed otherwise in the charter." As the City's internal policies do not currently align with this guidance from the State, we recommend that the City evaluate its approval procedures, and review them with a representative from the Michigan Department of Treasury's Local Audit and Finance Division to ensure compliance with applicable regulations.

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